U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Select Revenue Measures

Hearing on Certain Expiring Tax Provisions

Submission of Written Comments for the Hearing Record
Save Our Scenic Hill Country Environment, Inc.

May 10, 2012

This testimony is being submitted on behalf of the Save Our Scenic Hill Country Environment (SOSHCE) organization which has approximately 600 members. Most of our members are landowners in an area recognized as the Hill Country of Texas. This area is known for its scenic beauty. One of the significant features in this area is the Enchanted Rock State Natural Area which is designated as a National Natural Landmark.

Even though the Hill Country has a relatively low wind resource potential in general, it has and continues to be considered for industrial wind development. In addition, the area is being crossed by two high voltage transmission lines that are transporting wind energy from industrial wind farms in West Texas to the metropolitan areas to the east.

The expiring tax provision of most concern to us is the Federal Production Tax Credit (PTC) as it applies to industrial wind development. It is the key driver for potential industrial wind development in areas such as the Hill Country where it could result in non-optimal utilization of limited taxpayer resources. In addition, it results in the requirement for ratepayer payments for transmission systems that are needed to move the wind energy from remote locations to metropolitan load centers.

<u>There are a number of factors that demonstrate that the PTC for industrial wind development should not be extended beyond its current expiration date of year end 2012.</u>

(1) After having access to the PTC for most of the last 20 years, it is long past time that the mature industrial wind energy industry proves that it can exist without subsidies.
(2) The PTC subsidy is massive, and its cost to taxpayers could reach an additional $20 billion or more with a four year extension.
(3) Even without the PTC, industrial wind development will continue to be supported by Renewable Portfolio Standard (RPS) requirements which currently exist in 29 states.
(4) Industrial wind development creates a relatively small number of permanent, direct jobs.
(5) Related transmission system additions will be costly with ratepayers in Texas being burdened with the $6.9 billion cost of the Competitive Renewable Energy Zone (CREZ) system as an example.

Attachment 1 provides additional support for these factors. Attachment 2 provides supplemental information on the witness and SOSHCE.

Attachment 1

Additional Support for Factors that Demonstrate that the PTC Should Not Be Extended

After having access to the PTC for most of the last 20 years, it is long past time that the mature industrial wind energy industry proves that it can exist without subsidies.

THE PTC was originally enacted by the Energy Policy Act of 1992 and has been renewed and extended numerous times. It expired from July 1999 to December 1999, end of 2001 to March 2002 and end of 2003 to October 2004.[1] As such, it has been in place for most of the past 20 years.

The wind industry has installed a large number of projects and significant amount of capacity since 1999.[2] As such, the industry is certainly mature and should no longer be dependent on subsidies.

An April 2012 paper entitled "Beyond Boom & Bust- Putting Clean Tech on a Path to Subsidy Independence" written by representatives of the Brookings Institution, the Breakthrough Institute and the World Resources Institute stated "….,this report concludes that policy makers and business leaders need to unite behind timely energy policy reform that supports US innovation, rewards continual improvements in clean tech price and performance, and secures subsidy independence for clean tech markets as rapidly as possible."[3]

The PTC subsidy is massive, and its cost to taxpayers could approach an additional $20 billion or more with a four year extension.

Not only has the PTC been in place for an extended period of years, it has continued to escalate in amount. Starting at 1.5 cents/kilowatt-hour in 1993, it now stands at 2.2 cents/kilowatt-hour.[1] As a tax credit, its value to a developer with a 40% marginal tax rate is 3.7 cents/kilowatt-hour on a before tax basis. That value significantly exceeds the current 2012 year-to-date load zone average price of electricity in the ERCOT region which includes most of Texas.[4]

In a December 2011 presentation entitled "Impact of the Production Tax Credit on the U.S. Wind Market" prepared for the American Wind Energy Association (AWEA) by Navigant Consulting, Inc., and that can be accessed from the publically available area in the AWEA website , it was indicated that an additional 20.2 gigawatts of new wind capacity would be installed over the 2011-2016 period for a four year extension of the PTC.[5] Assuming an average capacity factor of 30%, the PTC tax cost would be about $12 billion. This outlay would be in addition to the $8 billion of PTC associated with the 14 gigawatts that the presentation indicated would be installed primarily to meet state RPS requirements over the 2013-2016 period.

This total of $20 billion would be on top of the $1.4 billion to $1.5 billion per year of PTC obligations incurred prior to the end of 2012.[6] It would also be in addition to any U.S. Treasury 1603 program up-front grant expenditures and accelerated depreciation costs.

Even without the PTC, industrial wind development will continue to be supported by Renewable Portfolio Standard (RPS) requirements which currently exist in 29 states.

Renewable Portfolio Standard (RPS) programs currently apply in 29 states[1] that will likely result in additional industrial wind installations even without PTC extension.

The AWEA Navigant presentation indicated that about 14 gigawatts of industrial wind energy wind capacity are expected to be installed over the 2013-2016 period based primarily on RPS requirements[5].

As a specific example, DTE Energy announced on May 3, 2012, that it has issued a Request for Proposals for approximately 100 megawatts of Michigan-based wind projects that will be operating by the end of 2013.[7] The news release stated that DTE Energy expects to add about 1,000 megawatts from renewable sources by 2015 to meet the state's renewable energy goals.

Industrial wind development creates a relatively small number of permanent, direct jobs.

Of the additional 169,000 job-years that the AWEA Navigant presentation[5] indicated will be created over the 2011-2016 period for a four year PTC extension, 43,000 are induced, 78,000 are indirect and only 47,000 are direct. Of the 47,000 that are direct, 31,000 were manufacturing and only 16,000 are construction and Operations & Maintenance (O&M). While not broken out, the O&M jobs are likely a much smaller number than the temporary construction jobs.

As a specific example, BP Alternative Energy reported on April 4, 2012, that the more than $800 million 419 megawatt capacity Flat Ridge 2 wind farm in Kansas will create 500 jobs at peak construction and roughly 30 permanent jobs once the wind farm begins commercial operations which is expected by the end of the year.[8]

In an April 2012 NREL report entitled "Preliminary Analysis of the Jobs and Economic Impacts of Renewable Energy Projects Supported by the 1603 Treasury Grant Program", it was indicated that the program has provided approximately $9.0 billion in funds to over 23,000 PV and large wind projects through November 10, 2011.[9] It indicated that the construction and installation-related expenditures are estimated to have supported an average of 52,000-75,000 direct and indirect jobs per year over the program's operational period (2009-2011). Indirect jobs account for 43,000-66,000 while those directly supporting the design, development and construction/installation of systems were only 9,400 per year. Furthermore, the annual operation and maintenance (O&M) are estimated to support between 5,100 and 5,500 direct and indirect jobs per year on an on-going basis with only 910 jobs directly supporting the O&M. It is pointed out that, as a gross analysis, the analysis does not include impacts from displaced energy or associated jobs, earnings, and output related to existing or planned energy generation resources or increases or decreases in jobs related to changes in electric utility revenues and consumer energy bills, among other impacts.

Related transmission system additions will be costly with ratepayers in Texas being burdened with the $6.9 billion cost of the Competitive Renewable Energy Zone (CREZ) system as an example.

The CREZ transmission system in Texas can serve as a good example of the cost of transmission systems that will be needed with a PTC extension. Texas state legislation in 2005 mandated that the highest potential renewable areas in the ERCOT region (covering 85% of the load in the state) be identified and that the needed transmission additions be implemented. Five CREZ wind energy areas in West Texas and the Panhandle were selected. The transmission system that was needed to move the wind energy to the large metropolitan areas was designed to move about 18.5 gigawatts, an increase of about 8.5 gigawatts from the installed wind capacity as of the end of 2011. The CREZ transmission system was initially expected to cost $4.9 billion. The most recent estimate is $6.9 billion.[10] Ratepayers, rather than the industrial wind developers, will be required to pay for the costs through monthly billings.

References:

(1) DSIRE Database of State Incentives for Renewables & Efficiency; Federal Incentives/Policies for Renewables & Efficiency/Renewable Electricity Production Tax Credit (PTC): http://dsireusa.org/incentives/incentive.cfm?Incentive_Code=US13F&re=1&ee=1 ; Summary Maps- RPS Policies: http://dsireusa.org/summarymaps/index.cfm?ee=1&RE=1

(2) Exhibit 2: Annual Wind Capacity Increases, Impact of Tax Policies on the Commercial Application of Renewable Energy Technology; Testimony of Lisa C. Linowes; U.S. House of Representatives, Committee on Science, Space, and Technology/Subcommittee on Investigations and Oversight/Subcommittee on Energy and Environment; April 19, 2012

(3) "Beyond Boom & Bust- Putting Clean Tech on a Path to Subsidy Independence", April 2012; http://www.brookings.edu/papers/2012/0418_clean_investments_muro.aspx

(4) ERCOT Historical Data, Monthly RT, 2012-01-01 to 2012-05-09, GDF SUEZ Energy Resources; http://www.gdfsuezenergyresources.com/index.php?id=313

(5) "Impact of the Production Tax Credit on the U.S. Wind Market", prepared for the American Wind Energy Association by Navigant Consulting, Inc., December 11, 2011; http://awea.org/_cs_upload/learnabout/publications/reports/12538_3.pdf

(6) "Estimates of Federal Tax Expenditures For Fiscal Years 2011-2015", Joint Committee on Taxation, January 17, 2012

(7) "DTE Energy seeks wind energy proposals", DTE Energy News Release, May 3, 2012; http://dteenergy.mediaroom.com/index.php?s=26817&item=127952

(8) "BP and Sempra U.S. Gas & Power Move into Full Construction Of $800M Wind Farm in Kansas", BP Alternative Energy release, April 4, 2012; http://www.bp.com/genericarticle.do?categoryId=9024973&contentId=7074159

(9) "Preliminary Analysis of the Jobs and Economic Impacts of the Renewable Energy Projects Supported by the 1603 Treasury Grant Program", NREL Technical Report NREL/TP-6A20-52739, April 2012

(10) "April 2012 Update", Public Utility Commission of Texas CREZ Transmission Program Information Center; http://www.texascrezprojects.com/page29605015.aspx

Attachment 2

Witness/Organization Supplemental Information

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